

factsheet

March 2008

WP-07 Supplemental Rate Case

BPA officially re-opened its WP-07 wholesale power rate proceeding in early February 2008 to respond to the recent rulings from the U.S. Court of Appeals for the Ninth Circuit regarding the 2000 Residential Exchange Program Settlement Agreements and their treatment in the WP-02 rates. Results of this re-opened rate case will also include a return to implementing a traditional Residential Exchange Program as well as revised power rates for FY 2009. This effort is called the WP-07 Supplemental Rate Case.

BPA does not receive appropriations and, by law, must cover all of its costs through the sale of its power and transmission services. Rates are set to recover the costs of providing the products and services that BPA sells. Essentially, a rate is determined by adding up all the costs anticipated for the coming rate period, then subtracting any credits BPA may receive. In addition, costs must be added to cover potential risks. The remaining costs after subtracting the credits are divided by BPA's applicable load (the amount of electricity to be delivered at that rate), and this equals the rate, or price, of BPA's power.

A rate case is a legal proceeding, and BPA is required to follow a process set out in Section 7(i) of the Northwest Power Act of 1980. This fact sheet provides information about the WP-07 Supplemental Rate Case and its schedule.

BPA's proposal

In 2000, BPA entered into REP Settlement Agreements with the region's six investor-owned utilities to resolve long-standing disputes over the implementation of the REP. These agreements established the

level of REP benefits for FY 2002 through 2011.

In 2007, the Ninth Circuit Court in three rulings and three memorandum opinions, found BPA's 2000 REP Settlement Agreements inconsistent with the Northwest Power Act. The court also ruled that the costs of the settlements were unlawfully allocated to preference customers. Preference customers are cooperatives or public bodies, such as municipalities and public utility districts, which, by law, have priority access to federally generated power. These REP settlement costs have been in BPA's power rates paid by preference customers since FY 2002.

In the WP-07 Supplemental Rate Case, BPA proposes to address the court's rulings in three steps. First, BPA proposes to determine the amount of any overpayments to the IOUs (called lookback amounts) that represent costs that should not have been included in preference customer rates. Second, BPA proposes to recover these overpayments through reduced power rates to the extent possible, from each IOU through reductions in future REP payments. Last, BPA proposes to return the lookback amounts to preference customers over time, beginning in FY 2009, through power rates. BPA's proposal will also establish the rate used to calculate FY 2009 REP benefits provided to IOUs. In addition, BPA is proposing to revise the 7(b)(2) implementation methodology and legal interpretation.



Specifically, BPA is responding to the issues raised by the Court by proposing the following:

- Disburse to Northwest utilities \$504 million BPA is collecting in rates for REP settlement benefits but has not been distributing since the original May 2007 court decisions. Of this, publicly owned utilities would receive \$315 million in cash, and IOUs would receive \$189 million in REP benefits. These payments would be made either in 2008 through interim agreements and associated true-ups to the rate case results or in FY 2009 for utilities that do not enter into interim agreements.
- Provide \$620 million in future rate relief to publicly owned utilities to repay them for over-payments they made during FY 2002-2007. This would be achieved through reduced REP payments to IOUs in FY 2009 and beyond, until each utility's part of the \$620 million is paid off.
- Reduce wholesale power rates to preference customers 4 percent on average in FY 2009, from \$27.3 per megawatt-hour to \$26.2 per MWh. This reflects a reduction in REP benefits to \$202 million from the \$336 million that would have occurred under the settlement agreements. Updated costs and other financial information for FY 2009 are also included in this rate reduction.
- Re-establish the REP and set FY 2009 benefits for residential and small-farm consumers served by

investor-owned utilities at \$250 million. Actual payments to the investor-owned utilities in FY 2009 would be reduced to \$202 million under BPA's proposal because part of the \$250 million in REP benefits will be applied toward paying back the \$620 million.

The table below compares BPA's proposal with REP benefits that would have been received under the settlement agreements found unlawful by the court.

Concurrent with the WP-07 Supplemental Rate Case, BPA is reviewing and revising the 1984 Average System Cost (ASC) methodology in recognition of changes in energy markets and/or policy decisions over the past 20 years. ASCs are another component needed to implement the REP. BPA proposes to establish a new 2008 ASC Methodology in parallel with the WP-07 Supplemental Rate Case.

The ASC methodology and costs for FY 2009, including fish recovery costs, are being treated in processes parallel to but separate from the rate case. Also, BPA expects changes to its fish and wildlife commitments. The major change is expected to come from the final new biological opinion on river operations, expected in the spring of 2008. BPA will hold a workshop in the spring to review estimates of fish costs likely to result from the remand of the 2004 Biological Opinion. At that time, BPA will decide the appropriate level to put into the rates.

Comparison of FY 2009 REP Benefits

(millions of dollars)

	What REP benefits would have been under settlements	REP benefits	Actual REP payments	Expected REP benefits applied to lookback amount
Avista Energy	21.0	27.8	23.3	4.5
Idaho Power*	31.6	9.2	0.0	0.0
NorthWestern	3.9	7.6	6.4	1.2
PacifiCorp	92.6	50.8	42.7	8.1
PGE	78.9	54.6	45.8	8.8
Puget Sound	108.3	100.2	84.1	16.1
Total	336.3	250.2	202.3	38.7

* If Idaho Power participates in the REP, their REP benefits first go toward their existing deemer balance.

Record of Decision

A record is kept of all materials in the rate case, including comments, testimony, exhibits, hearing transcriptions and other relevant documents. The BPA administrator reviews this official record and then makes final decisions on the rates. The record of decision documents the administrator's decisions and summarizes comments from participants.

Publishing the ROD is how a federal agency notifies the public of its decision and the rationale for that decision. All BPA RODs are posted at www.bpa.gov/corporate/pubs/rods/.

FERC Filing

Once BPA completes its ROD, BPA submits its rates (and the entire record of the rate proceeding) to the Federal Energy Regulatory Commission for approval. Because final approval can take time, FERC frequently grants interim approval. FERC reviews the proposed rates and determines whether or not 1) costs have been correctly allocated between power and transmission rates and 2) the proposed rates are sufficient to recover BPA's costs.

Schedule

The formal rate case will continue until the final ROD is released, which is anticipated in August 2008. The decision will be sent to FERC around Aug. 29, with interim approval expected in late September. Rates would go into effect on Oct. 1, 2008.

Related Materials

"A history of BPA's Residential Exchange Program" at www.bpa.gov/corporate/pubs/fact_sheets/07fs/fs061507.pdf.

"WP-07 power rates" at www.bpa.gov/corporate/pubs/fact_sheets/06fs/fs0706b.pdf.

For more information

For more information about this rate case or public meeting, please call (800) 622-4519 or visit the project Web site: www.bpa.gov/corporate/ratecase.